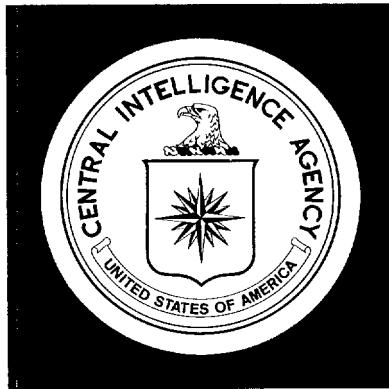


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No 40

12 April 1973

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FEDAYEEN-LEBANON: Palestinian guerrilla organizations are mounting a major campaign to incite anti-American sentiment and are staging incidents against US diplomatic installations in Beirut.

Fedayeen led a number of unruly demonstrations yesterday, involving hundreds of students and pro-Palestinian sympathizers, against alleged US complicity in the Israeli commando raid. Anti-American propaganda was disseminated through leaflets and the use of loudspeakers on autos.

During one mass protest, minor damage was inflicted on a USIA building. Security forces fired automatic weapons near the installation but there are no reports of casualties. For the second day, police dispersed demonstrators attempting to reach the US Embassy. The security forces could be even more severely tested as guerrilla agitators almost certainly will use the occasion of the funeral today for three slain fedayeen leaders to provoke incidents. Further reflecting fedayeen intentions, the Algiers Voice of Palestine broadcast called on Arab masses to "kill everyone who is American."

The Israeli raid and domestic reactions to it have severely shaken the Lebanese Government. Prime Minister Salam's offer to resign is an apparent effort to dissociate himself from the government, which is being criticized for the army's failure to resist the Israelis. [redacted]

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[redacted] Salam's resignation has not yet been accepted, but Franjiyah is believed to be considering the formation of a new government of "national union" presumably to include more leftist, pro-Palestinian elements. [redacted]

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WORLD RICE SITUATION: There is very little exportable rice available for purchase in world markets, and prices for the small quantities available have more than doubled in the past nine months.

In the wake of last year's poor monsoon, deficit rice countries have been searching for supplies on the world market. Thailand, the world's leading exporter last year, has ceased quoting export prices until it determines the state of its domestic supply. US exporters, with only limited stocks remaining, are asking more than \$300 per ton for high quality rice, compared with about \$150 last July.

The acute rice shortage will persist at least until the fall harvest. The US harvest probably will be delayed as a result of excessive spring rainfall and may not meet the planned 10-percent increase in production. The major Asian crop will not be harvested until November.

Total rice exports this year almost certainly will be less than 7 million tons, compared with the record 8 million tons exported last year. Exports of rice, however, normally amount to less than 5 percent of world consumption. US sales abroad probably will be comparable to last year's 2 million tons. Thai exports are expected to be only about half of last year's 2 million tons. Burma will be hard-pressed to export even half of last year's 520,000 tons. Japan plans to limit exports to 350,000 tons, compared with 500,000 tons last year. China probably will maintain, and may even be tempted by high prices to exceed, the 800,000 tons exported last year.

While exporting countries will benefit from higher prices, the rice shortage and high import prices for rice and substitute grains are intensifying foreign exchange difficulties for such importing

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countries as India, Bangladesh, Indonesia, the Philippines, and Sri Lanka. Increased domestic inflation and short rice supplies are eroding already low standards of living and causing political problems for some of these governments.

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PERU: The reported arrest on Tuesday of General Rafael Hoyos Rubio and his removal as commander of the armored division strengthen moderate elements who are maneuvering to ensure that someone acceptable to them, probably Prime Minister Mercado, will succeed President Velasco. Loss of effective control over the key Lima-based unit will seriously erode Velasco's ability to hang on to the presidency indefinitely and limit his influence on the choice of his successor.

Hoyos was removed by Mercado, acting in his capacity as army commander and minister of war. Hoyos' recent closeness to radical elements in the army and his threats to use force to resolve the succession issue apparently caused his removal. Velasco heretofore has managed to keep the armored division in the hands of trusted friends, but General Gonzalo Briceno Zevallos, the new commander named by Mercado, is not an admirer of the President. Briceno is a top-notch officer with outstanding leadership qualities who can be trusted by the moderates.



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The radicals, now on notice that the moderates will not stand for a minority dictating the presidential choice by threat of force, have yet to react to Hoyos' dismissal and arrest. Their position has been significantly weakened by the change in command. [redacted]

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PAKISTAN: President Bhutto's agreement with the opposition that cleared the way for approval of the new constitution may bring an interlude of relative calm to Pakistani politics, giving Bhutto for a time more freedom to deal with relations with India and Bangladesh. In two recent speeches, including one immediately after the agreement, Bhutto has argued strongly for recognition of Dacca and better relations with New Delhi.

On 10 April the opposition agreed to support the new constitution--which the National Assembly then approved almost unanimously--ostensibly in exchange for some minor changes in the document. The amended constitution, however, is still basically what Bhutto wanted. There is speculation that Bhutto also agreed to restore to the opposition control of two provincial governments that he had taken over.

If a deal along these lines has been made, neither side has really given up very much. Bhutto's overwhelming majority in the assembly gave the opposition no hope of blocking the constitution. In the two provinces, Bhutto's followers have spent almost two months in an unsuccessful attempt to forge new coalitions to replace the ones the President forced out of office in February. Such an agreement would lessen tensions temporarily, but is not a permanent solution to Pakistan's basic political problems that include balancing regional rivalries and disagreements over economic and foreign policies, which are heightened by intense competition for political power.

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JAPAN: The Japanese Air Self-Defense Force is forming its first squadron of F-4EJ jet fighters. The unit--which now has about ten aircraft--is at Hyakuri Air Base near Tokyo and will be ready for operations late this year. The F-4EJ squadron is the first of four to be formed during the current defense plan, which extends into 1977. Aircraft for at least one additional squadron have been authorized. The F-4EJs are being assembled by Mitsubishi in Japan under a US production license. A total of 128 are on order for the five squadrons, and they will be delivered to the air force at the rate of two per month over the next several years.

The F-4EJs will significantly strengthen Japan's air defenses and provide the air force with an all-weather capability. They are supplementing F104J interceptors in an air defense role. The air force still maintains seven squadrons of F-104Js as well as seven squadrons of aging F-86 fighters. Some of the F-86s will continue to be used in a ground support role until the end of the decade when they will gradually be replaced by new FS-T2 fighter bombers now being developed by the Japanese.

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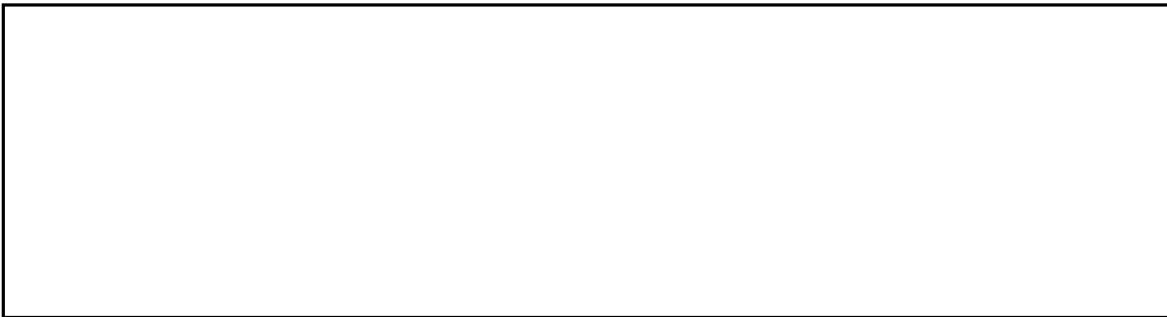
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ECUADOR: The government's continuing hard line on petroleum may be taking on an anti-US flavor.

Minister of Natural Resources Jarrin is adamant in his view that the world energy crisis must eventually oblige US oil companies to meet his stringent requirements for operating in Ecuador's oil producing areas. He seems confident that if the US companies refuse, West European and Japanese companies will eagerly fill the void. In an effort to encourage nationalizations, the Soviet Union has reportedly offered technical assistance if a national petroleum industry is created.

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Rodriguez may remain on the sidelines until June, when foreign oil companies will be required to restructure their Ecuadorean operations under strict new contract regulations. If the companies show signs of pulling out, Rodriguez may try to wrest control of petroleum policy from Jarrin, even though this might provoke a power contest.

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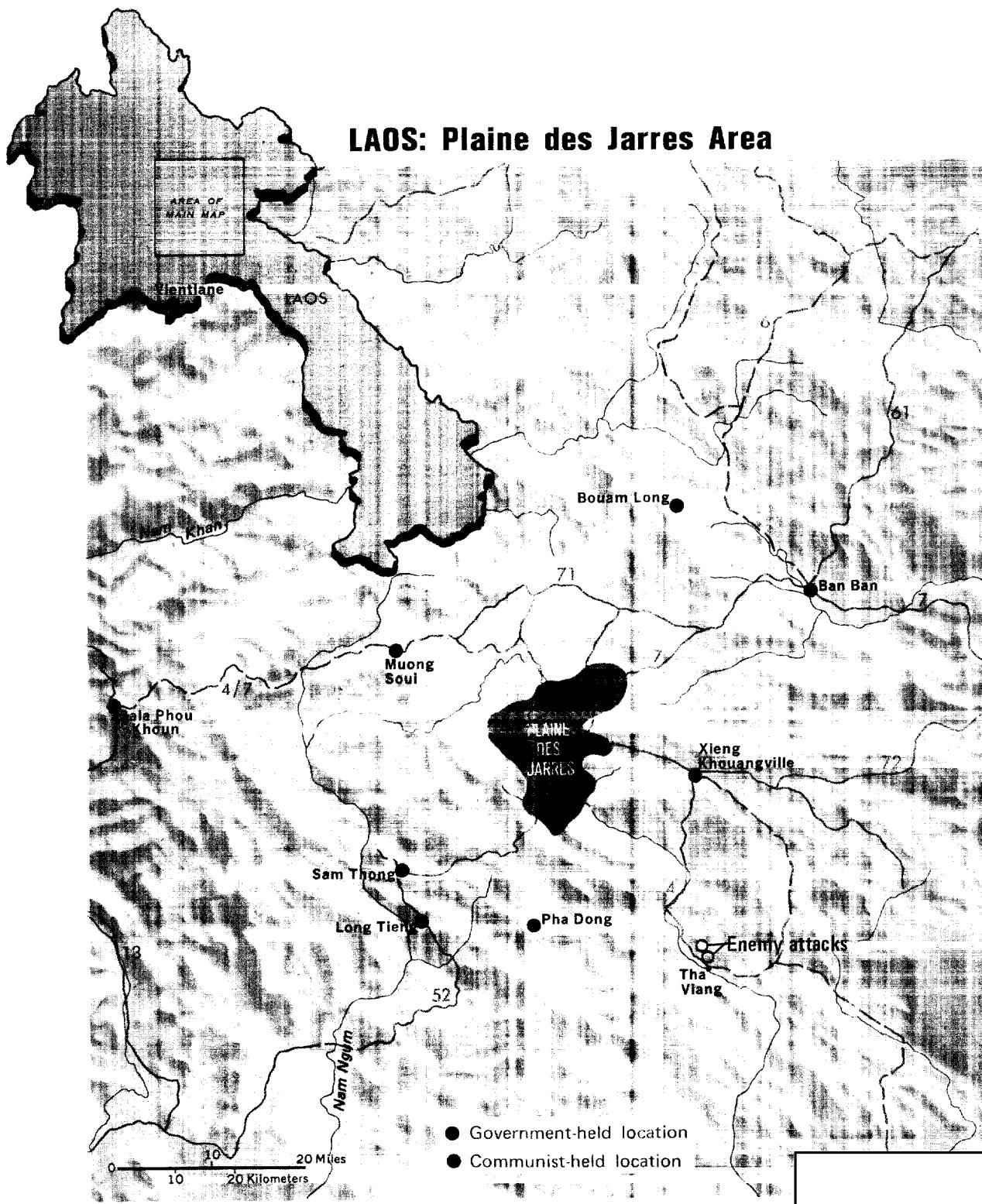


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LAOS: North Vietnamese units on 11 April launched a heavy attack against government positions near Tha Viang, a village on Route 4 south-east of the Plaine des Jarres. Government troops, supported by Lao T-28s, so far have held most positions and have suffered few casualties.

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JAPAN: Import growth, which has been rapid in recent months, will probably accelerate during the second quarter of 1973. The Ministry of International Trade and Industry last month issued licenses for a record \$3.6 billion in imports, almost double the value of those issued in March 1972. This follows an increase in imports licensed in February of 66 percent over the comparable month in 1972. Most of these increases will be reflected in the trade statistics for the next few months. Although the value of export contracts is running 20-25 percent higher than a year ago, the trade surplus for the second quarter of 1973 will almost certainly be somewhat smaller than for the same quarter last year. Much of the growth in the dollar value of imports reflects higher world prices for raw materials that make up most of Japanese imports. If prices stabilize or decline, the trade surplus could swell unless export growth also slows sharply.

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